



CASE STUDY

Dairy Milk in France

A marketing investigation of the situational environment

Dairy Milk
in France

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Abstract *This report aims to investigate the internal and external environmental forces for Dairy Milk in France. It seeks to provide the reader with the relevant organisational and industrial information that is required for the development of a SWOT analysis. The analysis of the environment and the consideration of the situational factors, when designing marketing planning, is critical as it would allow Dairy Milk to capitalise on organisational strengths, minimise any weaknesses, exploit market opportunities and avoid, as far as possible, any threats.*

The company

Cadbury Schweppes is the world's fourth biggest supplier of chocolate and sugar confectionery.

The group markets a mix of global, regional and local brands and has manufacturing plants in 25 countries and sales in a further 165.

The group's strategy is to increase profitability, brand strength and volume on a global basis in its two business streams: beverages and confectionery, through a combination of internal growth including green field developments, targeted acquisitions and joint ventures where there are appropriate opportunities. Capital and marketing expenditure, £249 million and £738 million respectively in 1996, are priorities to maintain and enhance the group's position as a low cost producer and ensure the continuing strength and earnings potential of the group's brand.

The Cadbury "Masterbrand" is one of the best known names in chocolate confectionery, and famous brands in sugar confectionery include Trebor and Basset.

Chocolate confectionery is sold internationally under the Cadbury name and includes power brands such as Cadbury's Dairy Milk, Cadbury's Time Out, Picnic and Roses.

The product

Today each inhabitant of the UK eats about 8kg, or 80 bars of Dairy Milk a year. Cadbury manufactures over 250 million Dairy Milk bars every year. The British spend nearly GBP 100 million a year on this product. Cadbury's Dairy Milk is the best selling bar chocolate in the world.

Dairy Milk was introduced in 1905, and has become the most successful moulded chocolate in UK history and the basic ingredient for many other

Cadbury products. 95 years later, Dairy Milk is one of the world's most famous brand names and the company's leading chocolate bar by revenue.

In the early 1990s, Dairy Milk chocolate was being made in ten countries in addition to the UK.

Sales from Cadbury's Dairy Milk alone are estimated at over £135 million for 1995. Cadbury considers its success is based on three factors: quality, value for money and good advertising.

Advantages and drawbacks in entering a foreign market

Cadbury would realise several possible advantages in going abroad. By penetrating a foreign market the company could:

- increase the use of its production capacity and thus increase economies of scale and scope;
- counterattack the competitors it faces in the domestic market by attacking their domestic market;
- increase its sales and profit, indeed the foreign market could present higher profit opportunities than the domestic market;
- reduce its dependence on the UK market and therefore diversify its market specific risk.

However Cadbury has to be aware of the risks it could face by going abroad. It might:

- not understand foreign customer preferences and fail to offer a competitively attractive product;
- not understand the foreign country's business culture or know how to deal effectively with foreign nationals;
- underestimate foreign regulations and incur unexpected costs.

Obviously any foreign entry decision must take these elements into account.

Method of entry

Cadbury has production facilities in the form of its subsidiary, Chocolate Poulain, in France. Using this subsidiary to produce the Dairy Milk chocolate for the French market would initially seem an attractive option. Chocolate Poulain is already producing at near full capacity and any change in production would be costly not only through reducing production of other brands but also through re-calibrating machines and experience curve difficulties.

UK production is well established and can easily produce sufficient chocolate for a short term market entry. The extra costs involved in exporting would be small as the French market is very close and Cadbury already exports Cadbury Fingers to France.

PEST analysis – Cadbury in France

Political

France is an advanced parliamentary democracy and politically is highly stable. The political power is centralised in the Parliament, the Prime Minister and the President. The country specific risk is negligible. France is a member of the European Community and has excellent relations with the UK.

Economic

France has the fourth largest GDP in the world. It is a first-world advanced market based economy. Despite a recent recession, its economy is very strong and also highly deregulated in line with European Union policies. France represents a very large potential market with a high standard of living and purchasing power. The economy is highly open internationally and conducts a high percentage of trade within its European partners.

Social

France has a broadly central/southern European culture which has many similarities with the UK. However cultural differences do exist, and these must be considered when planning for the market.

Technological

France has a high technology level and a lot of industries are based in the technological sector. This technological base constitutes one of France's competitive advantages.

Market analysis

Production

The French market for chocolate confectionery divides into three main categories: chocolate bars, countlines and standard and seasonal lines. There are five main types of chocolate bars: solid plain dark chocolate bars, solid plain milk chocolate bars, solid white chocolate bars, special lines of solid chocolate bars with various additions (hazelnuts, raisins, etc.), and filled chocolate bars.

Manufacturers offer a great diversity of products and the market is highly segmented.

French production of chocolate bars and confectionery amounted to about 275,000 tons in 1995 – and represented 75 per cent of all types of finished chocolate products. Total production of chocolate confectionery, which had increased by 24.5 per cent between 1988 and 1991, has slowed down in more recent years, partly due to the economic slump.

Output of chocolate bars of all types amounted to 126,236 tons in 1995, of which 95 per cent were solid and filled chocolate bars weighing more than 75g and nearly 5 per cent, small divided solid or filled bars weighing less than 75g. Output of solid milk chocolate bars amounted to 70,692 tons accounting for 56 per cent of total French production of solid and filled chocolate bars.

The establishment of manufacturing facilities in France by foreign companies has led to a reduction in their imports and a development of exports.

Market size

Consumption of chocolate products amounted to about 387,234 tons in 1995, worth around Fr 11,836.95 million at manufacturers' and importers selling prices (excluding tax).

Consumption of chocolate products, which had been growing until 1991, remained fairly static in 1992, reflecting the fall in demand due to the gloomy economic situation. From 1991 to 1995 the market grew by only 9.1 per cent, an indication of a mature market.

The chocolate bar market is highly segmented. Dark chocolate bars, milk bars and milk bars with nuts accounted for over two-thirds of the total volume of sales in large and medium size grocery outlets (which dominate the market), while specialities for children, light sugar-free chocolate bars and other miscellaneous special lines accounted for one-third of sales.

Sales of milk chocolate bars, which account for 24 per cent by volume of total sales of chocolate bars, decreased by 3.7 per cent.

Leading manufacturers of chocolate bars have been stimulating the growth of the market by improving their recipes, modernising their packaging and making great use of promotions. The dynamism of this sector owes a lot to greater added value in products during the last three years. Thus, chocolate bars are now marketed to two groups: children and adults. The children's market represents 8 per cent by value of total chocolate bar sales and is growing by 6 per cent a year. Chocolate bars for adults lay stress on their rich and refined image. Manufacturers have succeeded in creating new consumption habits, for example, the French are now eating small chocolates with their coffee.

The market segment has been hit by price wars. According to trade estimates, sales of low price products increased by 23 per cent and gained significant ground in the chocolate market in recent years. Low prices are mainly visible in basic products such as milk chocolate bars.

Consumption patterns

Consumption of chocolate products is lower in France than in several other European countries. Annual consumption of finished chocolate products per head of population was 5.1kg in 1995 compared with 6.1kg in other European countries. Consumption of chocolate per head in France rose in France between 1980 and 1999. There is a considerable seasonal variation in consumption.

Unlike the UK, France has a larger consumption of chocolate bars than of chocolate-coated confectionery bars. In recent years French consumption of chocolate products has been marketed by two main trends: a change in eating habits and a destructuring of meal arrangements which favour "snacking" and individual consumption, and an increase in demand for products with a high cocoa content.

It is estimated that chocolate bars are bought regularly by 88 per cent of households with children and that French people consume an average of 18 chocolate bars per year. Total consumption of chocolate bars was 3.4kg per head in 1995. Bars of chocolate are popular items traditionally used for children's after school snacks, often eaten with bread, thus they are normal shopping basket items.

Consumption of chocolate bars varies regionally. Consumption of milk chocolate bars is relatively higher in the east and south west regions.

There are marked differences in consumption according to age, income and household size. Elderly people consume a smaller volume of chocolate bars than average. The under 35s are the largest consumers of milk chocolate. Households with children under 15 are the largest buyers of milk chocolate.

Manufacturers and brands

The French chocolate industry, comprising some 107 enterprises, had a turnover of Fr 116.5 billion (excluding tax) in 1997. The industry is dominated by multinational, mainly foreign owned groups. As you can see in Figure 1, of the eight leading enterprises, only two are French, Cacao Barry SA and Chocolate Cantalou. Other leading producers are subsidiaries of foreign groups, including Nestle Rowntree, part of the Nestle Group and Lindt and Sprungli which are Swiss, Mars Alimentaire SA and Kraft General Foods-Jacobs Suchard subsidiaries of US groups. The industry also includes a fairly large number of small and medium enterprises.

The chocolate bar industry is fairly concentrated. The important manufacturers supplying chocolate bars mainly under their own brands included Kraft General Foods-Jacobs Suchard, Nestle Rowntree, Chocolate Poulain and Lindt Sprungli.

Manufacturers' total media spend on chocolate products reached nearly Fr 560 million in 1995, equivalent to a little under 4 per cent of the retail market value.

Distribution and price

Retail distribution of chocolate bars and chocolate confectionery is dominated by large grocery outlets, hypermarkets and supermarkets in particular, although these products are also sold in wide variety of other outlets. The importance of different types of retailers varies somewhat according to

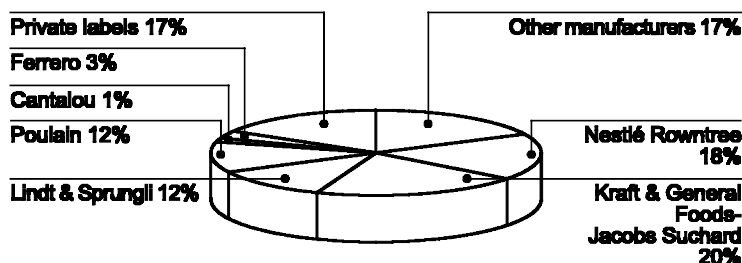


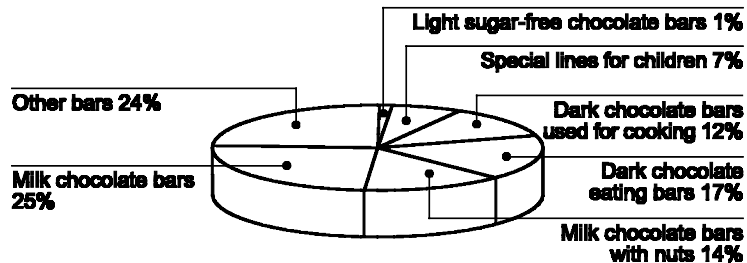
Figure 1.
Leading suppliers of all
types of chocolate bars –
1995

product. According to a retail panel, 87 per cent of the value of sales of chocolate bars of all types went through large grocery outlets in 1995 while the market share of small grocers' shops was 13 per cent.

Moreover, a breakdown of retail sales of chocolate bars in large and medium size grocery outlets is illustrated in Figure 2.

Consumers of chocolate bars and confectionery are very price conscious, especially on basic items. The market is highly competitive and price-cutting is widespread. Retail prices and margins vary widely according to product and outlet. Prices in large food stores, especially for products sold under distributors' brands, are much lower than those of products retailed by other miscellaneous shops and this has been an important factor in the growth of own labels in this market.

Figure 2.
Breakdown of retail sales of chocolate bars in large and medium size grocery outlets – 1995



Application questions

1. Develop a SWOT analysis for Dairy Milk in the French market.
2. What are the benefits of identifying internal strengths and weaknesses and external opportunities and threats?